

**SLIPPERY ROCK UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION**

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEARS ENDED JUNE 30, 2014 AND 2013

**SLIPPERY ROCK UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
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INDEPENDENT AUDITORS' REPORT

Council of Trustees
Slippery Rock University of Pennsylvania of the State System of Higher Education
Slippery Rock, Pennsylvania

Report on the Financial Statements

We have audited the accompanying financial statements of the business type activities and the aggregate discretely presented component units of Slippery Rock University of Pennsylvania of the State System of Higher Education ("University"), as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We did not audit the financial statements of the discretely presented component units, which represent 100% percent of the assets, net position, and revenues of the discretely presented component units. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented component units, is based solely on the reports of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, based on our audits and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business type activities and the aggregate discretely presented component units of the University as of June 30, 2014 and 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

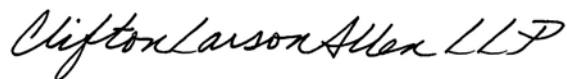
As discussed in Note 1 to the financial statements, the University implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 65 – *Items Previously Reported as Assets and Liabilities* for the year ended June 30, 2014, which represents a change in accounting principle. As of July 1, 2012, the University’s net position was restated to reflect the impact of adoption. A summary of the restatement is presented in Note 1. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Management has omitted the Management’s Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Accounting principles generally accepted in the United States of America require that the Schedules of Funding Progress for the System Plan and REHP (OPEB) on page 40 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



CliftonLarsonAllen LLP

Harrisburg, Pennsylvania
October 30, 2014

**SLIPPERY ROCK UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
BALANCE SHEETS – PRIMARY INSTITUTION
JUNE 30, 2014 AND 2013**

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>2014</u>	<u>2013</u>
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 75,264,928	\$ 79,736,458
Accounts Receivable:		
Governmental Grants and Contracts	1,148,697	939,323
Students, Net of Allowance for Doubtful Accounts of \$2,408,946 in 2014 and \$1,768,342 in 2013	2,476,551	2,722,277
Other	71,706	214,711
Due from Component Unit	2,571,519	3,811,201
Inventories	503,774	512,316
Prepaid Expenses and Other Assets	201,694	177,474
Current Portion of Conversion Pay Receivable	13,309	9,848
Current Portion of Loans Receivable	674,007	681,654
Interest Income Receivable	86,602	79,195
Total Current Assets	<u>83,012,787</u>	<u>88,884,457</u>
NONCURRENT ASSETS		
Conversion Pay Receivable	4,484	9,914
Loans Receivable, Net	4,175,136	3,917,388
Capital Assets, Net	118,552,865	121,671,321
Total Noncurrent Assets	<u>122,732,485</u>	<u>125,598,623</u>
 Total Assets	 205,745,272	 214,483,080
DEFERRED OUTFLOWS OF RESOURCES		
Unamortized Loss on Refunding of Debt	<u>12,385</u>	<u>15,419</u>
 Total Assets and Deferred Outflows of Resources	 <u>\$ 205,757,657</u>	 <u>\$ 214,498,499</u>

See accompanying Notes to Financial Statements.

**SLIPPERY ROCK UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
BALANCE SHEETS – PRIMARY INSTITUTION (CONTINUED)
JUNE 30, 2014 AND 2013**

LIABILITIES AND NET POSITION	2014	2013
CURRENT LIABILITIES		
Accounts Payable and Accrued Expenses	\$ 10,789,401	\$ 10,723,158
Unearned Revenue	5,205,241	4,950,150
Students' Deposits	633,662	551,001
Other Deposit Liabilities	18,438	8,077
Workers' Compensation	370,664	321,961
Compensated Absences and Postretirement Benefit Obligations	4,966,405	4,635,001
Bond Premium	281,385	348,798
Bonds Payable	2,981,435	3,057,691
Capital Lease Obligations	21,034	35,042
Due to System, AFRP	317,598	304,890
Total Current Liabilities	25,585,263	24,935,769
NONCURRENT LIABILITIES		
Workers' Compensation	440,721	115,822
Compensated Absences and Postretirement Benefit Obligations	81,628,187	75,851,368
Bond Premium	1,733,458	2,359,056
Bonds Payable	35,993,212	44,829,604
Capital Lease Obligations	9,830	33,179
Unearned Revenue	1,555,250	1,990,774
Due to System, AFRP	2,460,292	2,780,713
Other Noncurrent Liabilities	4,566,767	4,486,982
Total Noncurrent Liabilities	128,387,717	132,447,498
Total Liabilities	153,972,980	157,383,267
NET POSITION		
Net Investment in Capital Assets	74,779,741	74,658,757
Restricted:		
Nonexpendable:		
Other	733,121	-
Expendable:		
Scholarships and Fellowships	103,645	111,174
Capital Projects	835,821	682,346
Student Loans	-	718,936
Other	161,743	175,428
Unrestricted	(24,829,394)	(19,231,409)
Total Net Position	51,784,677	57,115,232
Total Liabilities and Net Position	\$ 205,757,657	\$ 214,498,499

See accompanying Notes to Financial Statements.

**SLIPPERY ROCK UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
STATEMENTS OF REVENUES, EXPENSES, AND
CHANGES IN NET POSITION – PRIMARY INSTITUTION
YEARS ENDED JUNE 30, 2014 AND 2013**

	2014	2013
OPERATING REVENUES		
Tuition and Fees	\$ 78,179,096	\$ 76,293,626
Less: Scholarship Discounts and Allowances	(17,930,246)	(17,528,232)
Net Tuition and Fees	60,248,850	58,765,394
Governmental Grants and Contracts:		
Federal	859,009	1,751,088
State	7,738,315	7,214,310
Local	3,545,541	3,743,056
Sales and Services of Educational Departments	2,801,532	2,361,684
Nongovernmental Grants and Contracts	87,761	93,619
Auxiliary Enterprises, Net of Scholarship Discounts and Allowances of \$289,347 in 2014 and \$283,325 in 2013	21,599,709	21,264,971
Other Revenues	397,536	586,568
Total Operating Revenues	97,278,253	95,780,690
OPERATING EXPENSES		
Instruction	51,579,550	50,425,901
Research	130,703	187,880
Public Service	1,379,796	1,387,450
Academic Support	10,518,281	10,170,013
Student Services	13,253,556	12,817,676
Institutional Support	23,835,590	23,275,618
Operations and Maintenance of Plant	14,482,560	14,179,585
Depreciation	7,223,942	7,942,120
Student Aid	6,384,909	6,255,839
Auxiliary Enterprises	17,114,181	16,309,055
Total Operating Expenses	145,903,068	142,951,137
NET OPERATING LOSS	(48,624,815)	(47,170,447)

See accompanying Notes to Financial Statements.

**SLIPPERY ROCK UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
STATEMENTS OF REVENUES, EXPENSES, AND
CHANGES IN NET POSITION – PRIMARY INSTITUTION (CONTINUED)
YEARS ENDED JUNE 30, 2014 AND 2013**

	2014	2013
NONOPERATING REVENUES (EXPENSES)		
State Appropriations, General and Restricted	32,576,803	32,012,491
Pell Grants	10,074,513	10,175,533
Investment Income, Net of Related Investment Expense of \$15,533 in 2014 and \$15,096 in 2013	780,088	856,775
Gifts for than Other Capital Purposes	208,046	-
Interest Expense on Capital Asset-Related Debt	(1,490,589)	(2,177,748)
Loss on Disposal of Assets	(8,034)	(120,931)
Other Nonoperating Revenue	80,860	86,155
Nonoperating Revenues, Net	42,221,687	40,832,275
LOSS BEFORE OTHER REVENUES	(6,403,128)	(6,338,172)
OTHER REVENUES		
State Appropriations, Capital	1,054,919	911,816
Capital Gifts and Grants	17,654	601,079
Total Other Revenues	1,072,573	1,512,895
CHANGE IN NET POSITION	(5,330,555)	(4,825,277)
Net Position, Beginning of Year	57,115,232	62,301,498
Restatement for Debt Issuance Costs Per GASB 65	-	(360,989)
Net Position, Beginning of Year, As Restated	57,115,232	61,940,509
NET POSITION, END OF YEAR	\$ 51,784,677	\$ 57,115,232

See accompanying Notes to Financial Statements.

**SLIPPERY ROCK UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
STATEMENTS OF CASH FLOWS – PRIMARY INSTITUTION
YEARS ENDED JUNE 30, 2014 AND 2013**

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Tuition and Fees	\$ 60,769,069	\$ 58,708,430
Grants and Contracts	11,968,608	13,665,278
Payments to Suppliers for Goods and Services	(32,500,112)	(33,518,796)
Payments to Employees	(93,150,607)	(89,874,168)
Loans Issued to Students	(967,804)	(678,215)
Loans Collected from Students	717,703	469,807
Student Aid	(6,487,944)	(6,356,958)
Auxiliary Enterprise Charges	21,293,648	21,178,308
Sales and Services of Educational Departments	2,801,326	2,374,315
Other Operating Receipts	1,676,244	196,750
Net Cash Used by Operating Activities	(33,879,869)	(33,835,249)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State Appropriations, including Federal ARRA	32,576,803	32,012,491
Pell Grants	10,282,559	10,175,533
Agency Transactions	12,498	97
PLUS, Stafford, and Other Loans Receipts (Non-Perkins)	68,897,729	57,268,395
PLUS, Stafford, and Other Loans Disbursements (Non-Perkins)	(68,897,729)	(57,268,395)
Other	80,860	86,155
Net Cash Provided by Noncapital Financing Activities	42,952,720	42,274,276
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Capital Appropriations	1,054,919	911,816
Capital Grants and Gifts Received	17,654	601,079
Purchases of Capital Assets	(3,934,216)	(5,405,950)
Principal Paid on Capital Debt	(9,257,718)	(3,253,677)
Interest Paid on Capital Debt	(2,197,701)	(2,566,061)
Net Cash Used by Capital Financing Activities	(14,317,062)	(9,712,793)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on Investments	772,681	880,492
DECREASE IN CASH AND CASH EQUIVALENTS	(4,471,530)	(393,274)
Cash and Cash Equivalents - Beginning of Year	79,736,458	80,129,732
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 75,264,928	\$ 79,736,458

See accompanying Notes to Financial Statements.

**SLIPPERY ROCK UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
STATEMENTS OF CASH FLOWS – PRIMARY INSTITUTION (CONTINUED)
YEARS ENDED JUNE 30, 2014 AND 2013**

	2014	2013
RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Net Operating Loss	\$ (48,624,815)	\$ (47,170,447)
Adjustments to Reconcile Net Operating Loss to Net Cash Used by Operating Activities:		
Depreciation Expense	7,223,942	7,942,120
Changes in Assets and Liabilities:		
Receivables	36,352	465,281
Inventory	8,542	7,196
Other Assets	1,360,436	1,185,199
Accounts Payable	(95,926)	(1,775,447)
Unearned Revenue	(180,433)	351,197
Students' Deposit	82,661	(109,504)
Compensated Absences	120,385	389,329
Loans to Students and Employees	(250,101)	(208,408)
Other Liabilities	6,439,088	5,088,235
Net Cash Used by Operating Activities	\$ (33,879,869)	\$ (33,835,249)
 SUPPLEMENTAL DISCLOSURE OF NONCASH OPERATING AND CAPITAL FINANCING ACTIVITIES		
Accounts Payable for Construction	\$ 179,304	\$ 1,180,199

See accompanying Notes to Financial Statements.

**SLIPPERY ROCK UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
COMBINED STATEMENTS OF FINANCIAL POSITION – COMPONENT UNITS
JUNE 30, 2014 AND 2013**

	2014	2013
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 10,038,379	\$ 11,156,848
Investments	23,350,152	20,360,347
Accounts Receivable, Other	764,816	584,493
Pledges Receivable	1,390,704	754,182
Inventories	892,882	873,529
Total current assets	36,436,933	33,729,399
NONCURRENT ASSETS		
Capital Assets, Net	103,576,094	107,513,730
Other Assets	27,209,954	25,136,141
Total Noncurrent Assets	130,786,048	132,649,871
Total Assets	\$ 167,222,981	\$ 166,379,270
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable and Accrued Expenses	\$ 89,520	\$ 195,906
Capitalized Leases	21,217	29,655
Due to University	2,571,519	3,811,201
Annuity Liabilities	532,225	538,211
Other Liabilities	8,547,913	8,970,676
Total current liabilities	11,762,394	13,545,649
NONCURRENT LIABILITIES		
Bonds Payable	120,395,000	122,420,000
Total Liabilities	132,157,394	135,965,649
NET ASSETS		
Unrestricted	10,315,708	8,970,631
Temporarily Restricted	9,672,010	7,465,586
Permanently Restricted	15,077,869	13,977,404
Total Net Assets	35,065,587	30,413,621
Total Liabilities and Net Assets	\$ 167,222,981	\$ 166,379,270

See accompanying Notes to Financial Statements.

**SLIPPERY ROCK UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
COMBINED STATEMENTS OF ACTIVITIES – COMPONENT UNITS
YEARS ENDED JUNE 30, 2014 AND 2013**

	2014	2013
CHANGES IN UNRESTRICTED NET ASSETS		
REVENUES AND OTHER ADDITIONS		
Contributions	\$ 373,303	\$ 115,271
Investment Income	20,163	22,547
Rental Income	14,413,755	13,897,390
Sales and Service	4,815,204	5,319,296
Student Activity Fees	2,222,518	2,215,074
Other Revenues	1,825,089	2,721,590
Net Assets Released from Restriction	2,649,293	1,339,777
Total Revenues and Other Additions	26,319,325	25,630,945
EXPENSES AND OTHER DEDUCTIONS		
Program services:		
Scholarships and Grants	1,538,096	2,201,796
Student Activities	3,117,794	3,366,070
University Store	2,969,316	3,374,851
Housing	14,605,439	14,335,702
Other University Support	1,017,185	1,557,088
Management and General	790,853	808,898
Transfer of Surplus to University	-	332,878
Fundraising	869,640	829,550
Actuarial Losses on Annuities Payable	65,925	100,333
Total Expenses and Other Deductions	24,974,248	26,907,166
Change in Unrestricted Net Assets	1,345,077	(1,276,221)
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS		
Contributions	1,138,452	969,393
Investment Income	3,717,265	2,620,677
Net Assets Released from Restrictions, Satisfaction of Program Restrictions	(2,649,293)	(1,339,777)
Change in Temporarily Restricted Net Assets	2,206,424	2,250,293
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS		
Contributions	1,100,465	1,089,273
INCREASE IN NET ASSETS	4,651,966	2,063,345
Net Assets - Beginning of Year	30,413,621	28,350,276
NET ASSETS - END OF YEAR	\$ 35,065,587	\$ 30,413,621

See accompanying Notes to Financial Statements.

**SLIPPERY ROCK UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Slippery Rock University of Pennsylvania of the State System of Higher Education (the "University"), a public four year institution located in Slippery Rock, Pennsylvania, was founded in 1889. The University is one of fourteen universities of the State System of Higher Education (the "State System"). The State System was created by the State System of Higher Education Act of November 12, 1982, P.L. 660, No. 188, as amended (Act 188). The State System is a component unit of the Commonwealth of Pennsylvania (the "Commonwealth").

Reporting Entity

The University functions as a Business-Type Activity, as defined by the Governmental Accounting Standards Board (GASB).

The Slippery Rock Student Government Association (the "Association") is a legally separate, tax-exempt entity, which is responsible for the operations of the University Store and community activities. Although the University does not control the resources of the Association, the activities of the Association are solely for the benefit of the University and its students. Because these resources are held by the Association and can only be used to benefit the University and its students, the Association is considered a component unit of the University and is discretely presented in the University's financial statements. The financial activity of the Association is presented as of June 30, 2014 and 2013.

The Slippery Rock University Foundation (the "Foundation") is a legally separate, tax-exempt entity, which acts primarily as a fund-raising organization and supplements the resources that are available to the University in support of its programs. Although the University does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, that the Foundation holds are restricted to activities of the University by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of the University, the Foundation is considered a component unit of the University and is discretely presented in the University's financial statements. The University received payments from the Foundation of \$397,551 and \$332,878 during the years ended June 30, 2014 and 2013, respectively. The financial activity of the Foundation is presented as of June 30, 2014 and 2013.

Complete financial statements for the Association and the Foundation may be obtained at the University's administrative office.

**SLIPPERY ROCK UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 1 NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus, Basis of Accounting and Basis of Presentation

The accompanying financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America, as prescribed by GASB. The economic resources measurement focus reports all inflows, outflows, and balances that affect an entity's net position. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

The accompanying financial statements of the component units, which are all private nonprofit organizations, are reported in accordance with Financial Accounting Standards Board (FASB) requirements, including FASB Statement No. 117, *Financial Reporting for Not-for-profit Organizations*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications for these differences have been made to the component units' financial information presented herein.

Operating Revenues and Expenses

The University records tuition; all academic, instructional, and other student fees; student financial aid; auxiliary activity; and corporate partnerships as operating revenue. In addition, governmental and private grants and contracts in which the grantor receives equal value for the funds given to the University are recorded as operating revenue. All expenses, with the exception of interest expense on capital asset-related debt and losses on the disposal of assets, are recorded as operating expenses. Appropriations, Pell Grants, investment income, gifts for other than capital purposes, and parking and library fines are reported as nonoperating revenue.

Scholarship Discounts and Allowances

Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the statement of revenues, expenses and changes in net position. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the University and the amount that is paid by students and/or third parties making payments on students' behalf. To the extent that revenues from such programs are used to satisfy tuition and fees and other student services, the University has recorded a scholarship discount and allowance.

**SLIPPERY ROCK UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 1 NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Position

Net position is the residual of Assets, plus Deferred Outflows of Resources, less Liabilities, less Deferred Inflows of Resources. The University maintains the following classifications of net position.

Net Investment in Capital Assets: Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, repair or improvement of those assets.

Restricted – Nonexpendable: Net position subject to externally imposed conditions requiring that they be maintained by the University in perpetuity.

Restricted – Expendable: Net position whose use is subject to externally imposed conditions that can be fulfilled by the actions of the University or by the passage of time.

Unrestricted: All other categories of net position. Unrestricted net position may be designated for specific purposes by the University's Council of Trustees.

When both restricted and unrestricted funds are available for expenditure, the decision as to which assets are used first is left to the discretion of the University.

Cash Equivalents

The University considers all demand and time deposits, money market funds and overnight repurchase agreements to be cash equivalents.

Accounts and Loans Receivable

Accounts and loans receivable consist of tuition and fees charged to current and former students and amounts due from federal and state governments in connection with reimbursements of allowable expenditures made pursuant to grants and contracts and other miscellaneous sources.

Accounts and loans receivable are reported at net realizable value. Accounts are written off when they are determined to be uncollectible based upon management's assessment of individual accounts. The allowance for doubtful accounts is estimated based upon the University's historical losses and periodic review of individual accounts.

Inventories

Inventories of the University consist mainly of supplies and is stated at the lower of cost or market, with cost determined principally on the weighted average method.

**SLIPPERY ROCK UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 1 NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets

Land and buildings at the University's campus acquired or constructed prior to the creation of the State System on July 1, 1983, are owned by the Commonwealth and made available to the University. Since the University neither owns such assets nor is responsible to service associated bond indebtedness, no value is ascribed thereto in the accompanying financial statements. Likewise, no value is ascribed to the portion of any land or buildings acquired or constructed utilizing capital funds appropriated by the Commonwealth after June 10, 1983 and made available to the University.

All assets with a purchase cost, or fair value if acquired by gift, in excess of \$5,000 with an estimated useful life of two years or greater are capitalized. Buildings, portions of buildings, and capital improvements acquired or constructed by the University after June 30, 1983, through the expenditure of University funds or the incurring of debt, are stated at cost less accumulated depreciation. Equipment and furnishings are stated at cost less accumulated depreciation. Library books are capitalized and depreciated. Assets purchased under capital leases are recorded at the lower of the present value of the minimum lease payments or the fair value of the asset. The University provides for depreciation on the straight-line method over the estimated useful lives of the related assets. Buildings and improvements are depreciated over useful lives ranging from 10 to 40 years. Equipment and furnishings are depreciated over useful lives ranging from 3 to 10 years. Library books are depreciated over 10 years. Amortization of assets purchased under capital leases is included in depreciation expense. Normal repair and maintenance expenditures are not capitalized because they neither add to the value of the property nor materially prolong its useful life.

The University does not capitalize collections of art, rare books, historical items, etc., as they are held for public exhibition, education, or research rather than financial gain.

Impairment of Capital Assets

Management reviews capital assets for impairment whenever events or changes in circumstances indicate that the service utility of an asset has declined significantly and unexpectedly. Any write-downs due to impairment are charged to operations at the time impairment is identified. No write-down of capital assets was required for the years ended June 30, 2014 and 2013.

Unearned Revenue

Unearned revenue includes amounts for tuition and fees, grants, corporate sponsorship payments and certain auxiliary activities received prior to the end of the fiscal year but earned in a subsequent accounting period.

Compensated Absences

Employees' right to receive annual leave and sick leave payments upon termination or retirement for services already rendered is recorded as a liability.

**SLIPPERY ROCK UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 1 NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Pension Plans

Employees of the University are required to enroll in one of three available retirement plans immediately upon employment. The University recognizes annual pension expenditures equal to its contractually required contributions to the Plan.

Deferred Outflows and Deferred Inflows of Resources

The balance sheet reports separate sections for Deferred Outflows of Resources and Deferred Inflows of Resources.

Deferred Outflows of Resources, reported after Total Assets, is defined by GASB as a consumption of net position that applies to future periods. The expense is recognized in the applicable future period(s). The University has one item that is required to be reported in this category: the deferred loss on bond defeasance, which results when the carrying value of a defeased bond is less than its reacquisition price. The difference is deferred and amortized over the remaining life of the old bond or the life of the new bond, whichever is shorter.

Deferred Inflows of Resources, reported after Total Liabilities, is defined by GASB as an acquisition of net position that applies to future periods. The revenue is recognized in the applicable future period(s). The University does not have any items required to be reported in this category.

Transactions are classified as deferred outflows of resources or deferred inflows of resources only when specifically prescribed by GASB standards.

Scholarships and Waivers

In accordance with a formula prescribed by the National Association of College and University Business Officers (NACUBO), the University allocates the cost of scholarships, waivers, and other student financial aid between Scholarship discounts and allowances (netted against tuition and fees) and Student aid expense. Scholarship and waivers of room and board fees are reported in Auxiliary enterprises. The cost of tuition waivers granted to employees is reported as employees' benefits expense.

Income Taxes

The University, as a member of the State System, is tax exempt; accordingly, no provision for income taxes has been made in the accompanying financial statements.

**SLIPPERY ROCK UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 1 NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications

Certain amounts in the prior period presented have been reclassified to conform to the current period financial statement presentation. These reclassifications have no effect on previously reported change in net position.

New Accounting Standards

The University has implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Statement No. 65 establishes accounting and financial reporting standards that (a) reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that previously were reported as assets and liabilities; and (b) recognize, as revenues or expenses, certain items that previously were reported as assets and liabilities. As a result, bond issuance costs, which previously were netted against the associated bond discount or bond premium on the balance sheet and amortized over the life of the associated bond payable, now are expensed in the period incurred. The fiscal year 2012/13 bond issuance costs expense of \$41,813 is included in the Statement of Revenues, Expenses, and Changes in Net Position as a restatement to the 2013 Decrease in Net Position. The June 30, 2012, balance of the deferred bond issuances costs of \$360,989 is included in the Statement of Revenues, Expenses, and Changes to Net Position as a restatement to the 2013 Net position—beginning of year.

	<u>2013</u>
Decrease in Net Position, as previously stated	\$ (360,989)
FY 2012/13 bond issuance costs	41,813
Decrease in Net Position, restated	<u>\$ (319,176)</u>
	<u>2013</u>
Net position—beginning of year, as previously stated	\$ 62,301,498
Unamortized balance of June 30, 2012, bond issuance costs	(360,989)
Net position—beginning of year, restated	<u>\$ 61,940,509</u>

**SLIPPERY ROCK UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 1 NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

New Accounting Standards (Continued)

Amounts representing the unamortized gain or loss on bond defeasance, which previously were netted and classified as other liabilities, are now reported as deferred outflows of resources (unamortized loss) or deferred inflows of resources (unamortized gain).

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*. In November 2013, GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Statements No. 68 and 71 will require the University to report its share of the pension liabilities that the Commonwealth of Pennsylvania State Employees' Retirement System (SERS) and Public School Employees' Retirement System (PSERS) must record beginning in fiscal year 2014/15. Although the University has not received an estimate of its share of the pension liabilities from either organization, the liabilities are expected to be significant and have a detrimental effect on its financial statements.

In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*. Statement No. 69 establishes accounting and financial reporting standards related to government combinations and disposals of government operations. In April 2013, GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. Statement No. 70 specifies the information required to be disclosed by governments that extend nonexchange financial guarantees. The University has determined that Statements No. 69 and 70 have no effect on its financial statements.

**SLIPPERY ROCK UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 2 CONDENSED COMPONENT UNITS INFORMATION

The following represents combining condensed statement of financial position information for the component units as of June 30, 2014:

	<u>Association</u>	<u>Foundation</u>	<u>Total</u>
Capital Assets, Net	\$ 4,831,946	\$ 98,744,148	\$ 103,576,094
Other Assets	11,323,346	52,323,541	63,646,887
Total Assets	<u>\$ 16,155,292</u>	<u>\$ 151,067,689</u>	<u>\$ 167,222,981</u>
Due to University	\$ -	\$ 2,571,519	\$ 2,571,519
Long-Term Debt	-	120,395,000	120,395,000
Other Liabilities	541,339	8,649,536	9,190,875
Total Liabilities	<u>\$ 541,339</u>	<u>\$ 131,616,055</u>	<u>\$ 132,157,394</u>
Net Assets:			
Unrestricted	\$ 15,613,953	\$ (5,298,245)	\$ 10,315,708
Temporarily Restricted	-	9,672,010	9,672,010
Permanently Restricted	-	15,077,869	15,077,869
Total Net Assets	<u>\$ 15,613,953</u>	<u>\$ 19,451,634</u>	<u>\$ 35,065,587</u>

The following represents combining condensed statement of financial position information for the component units as of June 30, 2013:

	<u>Association</u>	<u>Foundation</u>	<u>Total</u>
Capital Assets, Net	\$ 4,943,324	\$ 102,570,406	\$ 107,513,730
Other Assets	10,795,785	48,070,011	58,865,796
Total Assets	<u>\$ 15,739,109</u>	<u>\$ 150,640,417</u>	<u>\$ 166,379,526</u>
Due to University	\$ -	\$ 3,810,900	\$ 3,810,900
Long-Term Debt	-	122,420,000	122,420,000
Other Liabilities	728,050	9,006,955	9,735,005
Total Liabilities	<u>\$ 728,050</u>	<u>\$ 135,237,855</u>	<u>\$ 135,965,905</u>
Net Assets:			
Unrestricted	\$ 15,011,059	\$ (6,040,428)	\$ 8,970,631
Temporarily Restricted	-	7,465,586	7,465,586
Permanently Restricted	-	13,977,404	13,977,404
Total Net Assets	<u>\$ 15,011,059</u>	<u>\$ 15,402,562</u>	<u>\$ 30,413,621</u>

**SLIPPERY ROCK UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 2 CONDENSED COMPONENT UNITS INFORMATION (CONTINUED)

The following represents combining statement of activities for the component units for the year ended June 30, 2014:

	<u>Association</u>	<u>Foundation</u>	<u>Total</u>
Changes in Unrestricted Net Assets			
Revenues and Other Additions:			
Contributions	\$ 597	\$ 372,706	\$ 373,303
Investment Income	20,163	-	20,163
Rental Income	-	14,413,755	14,413,755
Sales and Service	4,212,101	603,103	4,815,204
Student Activity Fees	2,222,518	-	2,222,518
Other Revenues	514,230	1,310,859	1,825,089
Net Assets Released from Restriction		2,649,293	2,649,293
Total Revenues and Other Additions	<u>6,969,609</u>	<u>19,349,716</u>	<u>26,319,325</u>
Expenses and Other Deductions:			
Program Services:			
Scholarships and Grants	-	1,538,096	1,538,096
Student Activities	3,117,794	-	3,117,794
University Stores	2,969,316	-	2,969,316
Housing	-	14,605,439	14,605,439
Other University Support	-	1,017,185	1,017,185
Management and General	279,605	511,248	790,853
Transfer of Surplus to University	-	-	-
Fundraising	-	869,640	869,640
Actuarial Losses on Annuities Payable		65,925	65,925
Total Expenses and Other Deductions	<u>6,366,715</u>	<u>18,607,533</u>	<u>24,974,248</u>
Increase in Unrestricted Net Assets	602,894	742,183	1,345,077
Changes in Temporarily Restricted Net Assets			
Contributions	-	1,138,452	1,138,452
Investment Income	-	3,717,265	3,717,265
Net Assets Released from Restrictions	-	(2,649,293)	(2,649,293)
Decrease in Temporarily Restricted Net Assets	-	2,206,424	2,206,424
Changes in Permanently Restricted Net Assets			
Contributions	-	1,100,465	1,100,465
INCREASE IN NET ASSETS	602,894	4,049,072	4,651,966
Net Assets - Beginning	<u>15,011,059</u>	<u>15,402,562</u>	<u>30,413,621</u>
NET ASSETS - ENDING	<u>\$ 15,613,953</u>	<u>\$ 19,451,634</u>	<u>\$ 35,065,587</u>

**SLIPPERY ROCK UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 2 CONDENSED COMPONENT UNITS INFORMATION (CONTINUED)

The following represents combining statement of activities for the component units for the year ended June 30, 2013:

	<u>Association</u>	<u>Foundation</u>	<u>Total</u>
Changes in Unrestricted Net Assets			
Revenues and Other Additions:			
Contributions	\$ 355	\$ 114,916	\$ 115,271
Investment Income	22,547	-	22,547
Rental Income	-	13,897,390	13,897,390
Sales and Service	4,560,251	759,045	5,319,296
Student Activity Fees	2,215,074	-	2,215,074
Other Revenues	536,680	2,184,910	2,721,590
Net Assets Released from Restriction	-	1,339,777	1,339,777
Total Revenues and Other Additions	<u>7,334,907</u>	<u>18,296,038</u>	<u>25,630,945</u>
Expenses and Other Deductions:			
Program Services:			
Scholarships and Grants	-	2,201,796	2,201,796
Student Activities	3,366,070	-	3,366,070
University Stores	3,374,851	-	3,374,851
Housing	-	14,335,702	14,335,702
Other University Support	-	1,557,088	1,557,088
Management and General	278,888	530,010	808,898
Transfer of Surplus to University	-	332,878	332,878
Fundraising	-	829,550	829,550
Actuarial Losses on Annuities Payable	-	100,333	100,333
Total Expenses and Other Deductions	<u>7,019,809</u>	<u>19,887,357</u>	<u>26,907,166</u>
Change in Unrestricted Net Assets	315,098	(1,591,319)	(1,276,221)
Changes in Temporarily Restricted Net Assets			
Contributions	-	969,393	969,393
Investment Income	-	2,620,677	2,620,677
Net Assets Released from Restrictions	-	(1,339,777)	(1,339,777)
Increase in Temporarily Restricted Net Assets	-	2,250,293	2,250,293
Changes in Permanently Restricted Net Assets			
Contributions	-	1,089,273	1,089,273
INCREASE IN NET ASSETS	315,098	1,748,247	2,063,345
Net Assets - Beginning	<u>14,695,961</u>	<u>13,654,315</u>	<u>28,350,276</u>
NET ASSETS - ENDING	<u>\$ 15,011,059</u>	<u>\$ 15,402,562</u>	<u>\$ 30,413,621</u>

**SLIPPERY ROCK UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 3 DEPOSITS AND INVESTMENTS

The University predominantly maintains its cash balances on deposit with the State System. The State System maintains these and other State System funds on a pooled basis. Although the State System pools its funds in a manner similar to an internal investment pool, individual State System entities do not hold title to any assets in the fund. The State System as a whole owns title to all assets. The University does not participate in the unrealized gains or losses on the investment pool; instead, the University holds shares equal to its cash balance. Each share has a constant value of \$1, and income is allocated based on the number of shares owned. Revenue realized at the State System level is calculated on a daily basis and posted monthly to each entity's account as interest income. The University's portion of pooled funds totals \$73,449,797 and \$77,785,595 at June 30, 2014 and 2013, respectively.

Board Policy 1986-02-A, *Investment*, authorizes the State System to invest in obligations of the U.S. Treasury, repurchase agreements, commercial paper, certificates of deposit, banker's acceptances, U.S. money market funds, municipal bonds, corporate bonds, collateralized mortgage obligations (CMOs), asset-backed securities, and internal loan funds. Restricted nonexpendable amounts and amounts designated by the Board or university trustees may be invested in the investments described above, as well as corporate equities and approved pooled common funds. For purposes of convenience and expedience, the University uses local financial institutions for activities such as cash deposits. In addition, the University may accept gifts of investments from donors as long as risk is limited to the investment itself. Restricted gifts of investments fall outside the scope of the investment policy.

In keeping with its legal status as a system of public universities, the State System recognizes a fiduciary responsibility to invest all funds prudently in accordance with ethical and prevailing legal standards. Investment decisions are intended to minimize risk while maximizing asset value. Adequate liquidity is maintained so that assets can be held to maturity. High quality investments are preferred. Reasonable portfolio diversification is pursued to ensure that no single security or investment or class of securities or investments will have a disproportionate or significant impact on the total portfolio. Investments may be made in U.S. dollar-denominated debt of high quality U.S. and non-U.S. corporations. Investment performance is monitored on a frequent and regular basis to ensure that objectives are attained and guidelines are followed.

Safety of principal and liquidity are the top priorities for the investment of the State System's operating funds. Within those guidelines, income optimization is pursued. Speculative investment activity is not allowed; this includes investing in asset classes such as commodities, futures, short-sales, equities, real or personal property, options, venture capital investments, private placements, letter stocks, and unlisted securities.

**SLIPPERY ROCK UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)

The State System's operating funds are invested and reinvested in the following types of instruments with qualifications as provided. (See Board Policy 1986-02-A, Investment, for a complete list of and more details on permissible investments and associated qualifications.)

Investment Categories	Qualifications/Moody's Ratings Requirements
United States Government Securities	Together with repurchase agreements must comprise at least 20% of the market value of the fund.
Repurchase Agreements	Underlying collateral must be direct obligations of the United States Treasury and be in PASSHE's or its agent's custody.
Commercial Paper	P-1 and P-2 notes only, with no more than 5% and 3%, respectively, of the market value of the fund invested in any single issuer. Total may not exceed 20% of the market value of the fund.
Municipal Bonds	Bonds must carry long-term debt rating of A or better. Total may not exceed 20% of the market value of the fund.
Corporate Bonds	15% must carry long-term debt rating of A or better; 5% may be rated Baa2 or better. Total may not exceed 20% of the market value of the fund.
Collateralized Mortgage Obligations (CMOs)	Must be rated Aaa and guaranteed by U.S. government. Total may not exceed 20% of the market value of the fund.
Asset-Backed Securities	Must be Aaa rated. Total may not exceed 20% of the market value of the fund, with no more than 5% invested in any single issuer.
System Investment Fund Loans (university loans and bridge notes)	Total may not exceed 20% of the market value of the fund, and loan terms may not exceed 5 years.

CMO Risk: CMOs are sometimes based on cash flows from interest-only (IO) payments or principal-only (PO) payments and are sensitive to prepayment risks. The CMOs in the State System's portfolio do not have IO or PO structures; however, they are subject to extension or contraction risk based on movements in interest rates.

Moody's Rating: The State System uses ratings from Moody's Investors Service, Inc., to indicate the credit risk of investments, i.e., the risk that an issuer or other counterparty to an investment will not fulfill its obligations. An *Aaa* rating indicates the highest quality obligations with minimal credit risk. Ratings that begin with *Aa* indicate high quality obligations subject to very low credit risk; ratings that begin with *A* indicate upper-medium-grade obligations subject to low credit risk; and ratings that begin with *Baa* indicate medium-grade obligations, subject to moderate credit risk, that may possess certain speculative characteristics. Moody's appends the ratings with numerical modifiers *1*, *2*, and *3*, with *1* indicating a higher ranking and *3* indicating a lower ranking within the category. For short-term obligations, a rating of *P-1* indicates that issuers have a superior ability to repay short-term debt obligations, and a rating of *P-2* indicates that issuers have a strong ability to repay short-term debt obligations.

**SLIPPERY ROCK UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)

Modified Duration: The State System denotes interest rate risk, or the risk that changes in interest rates will affect the fair value of an investment, using modified duration. Duration is a measurement in years of how long it takes for the price of a bond to be repaid by its internal cash flows. Modified duration takes into account changing interest rates. The State System maintains a portfolio duration target of 1.8 years with an upper limit of 2.5 years for the intermediate-term component of the operating portion of the investment portfolio. The State System's duration targets are not applicable to its long-term investments.

On June 30, 2014 and 2013, the carrying amount of the University's demand and time deposits were \$1,815,131 and \$1,947,398, respectively, as compared to bank balances of \$1,864,408 and \$2,145,015, respectively. The differences are primarily caused by items in transit and outstanding checks. Of the bank balances at June 30, 2014 and 2013, \$250,000 was covered by federal government depository insurance; and \$1,614,408 and \$1,895,015, respectively, was uninsured and uncollateralized but covered under the collateralization provisions of the Commonwealth of Pennsylvania Act 72 of 1971 (Act 72), as amended. Act 72 allows banking institutions to satisfy the collateralization requirements by pooling eligible investments to cover total public funds on deposit in excess of federal insurance. Such pooled collateral is pledged with the financial institutions' trust departments. At June 30, 2014 and 2013, none of the University's demand and time deposits are exposed to foreign currency risk.

NOTE 4 INVESTMENT-COMPONENT UNIT

The fair value of investments at June 30 is as follows:

	<u>2014</u>	<u>2013</u>
Equity Securities	\$ 18,716,578	\$ 15,921,104
Fixed Income	4,445,174	4,250,843
Real Estate	188,400	188,400
Total	<u>\$ 23,350,152</u>	<u>\$ 20,360,347</u>

**SLIPPERY ROCK UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 5 CAPITAL ASSETS, NET

Capital assets acquired or constructed by the University through the expenditures of University funds or the incurrence of debt consist of the following:

	Life	2014				Ending Balance June 30, 2014
		Beginning Balance July 1, 2013	Additions	Retirements	Reclassifications	
Land		\$ 11,701	\$ -	\$ -	\$ -	\$ 11,701
Construction in Progress		<u>1,201,564</u>	<u>715,093</u>		<u>(701,669)</u>	<u>1,214,988</u>
Total Capital Assets Not being Depreciated		1,213,265	715,093	-	(701,669)	1,226,689
Buildings, including Improvements	40	148,588,982	2,012,925	-	547,915	151,149,822
Improvements Other than Buildings		13,191,107	980,007	-	153,754	14,324,868
Furnishings and Equipment Including Capital Leases	Varies	20,867,117	328,296	(730,267)	-	20,465,146
Library Books	10	<u>7,275,618</u>	<u>77,199</u>	<u>(763,869)</u>	<u>-</u>	<u>6,588,948</u>
Total Capital Assets being Depreciated		189,922,824	3,398,427	(1,494,136)	701,669	192,528,784
Less: Accumulated Depreciation:						
Buildings, including Improvements		(41,391,545)	(5,255,315)	-	-	(46,646,860)
Improvements Other than Buildings		(6,836,545)	(646,698)	-	-	(7,483,243)
Furnishings and Equipment Including Capital Leases		(14,532,127)	(1,240,522)	722,233	-	(15,050,416)
Library Books		<u>(6,704,551)</u>	<u>(81,407)</u>	<u>763,869</u>	<u>-</u>	<u>(6,022,089)</u>
Total Accumulated Depreciation		<u>(69,464,768)</u>	<u>(7,223,942)</u>	<u>1,486,102</u>	<u>-</u>	<u>(75,202,608)</u>
Total Capital Assets being Depreciated, Net		<u>120,458,056</u>	<u>(3,825,515)</u>	<u>(8,034)</u>	<u>701,669</u>	<u>117,326,176</u>
Capital Assets, Net		<u>\$ 121,671,321</u>	<u>\$ (3,110,422)</u>	<u>\$ (8,034)</u>	<u>\$ -</u>	<u>\$ 118,552,865</u>

**SLIPPERY ROCK UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 5 CAPITAL ASSETS, NET (CONTINUED)

	Life	2013				Ending Balance June 30, 2013
		Beginning Balance July 1, 2012	Additions	Retirements	Reclassifications	
Land		\$ 11,701	\$ -	\$ -	\$ -	\$ 11,701
Construction in Progress		2,691,981	813,141	-	(2,303,558)	1,201,564
Total Capital Assets Not being Depreciated		2,703,682	813,141	-	(2,303,558)	1,213,265
Buildings, including Improvements	40	141,549,775	4,735,649	-	2,303,558	148,588,982
Improvements Other than Buildings		13,191,107	-	-	-	13,191,107
Furnishings and Equipment, including Capital Leases	Varies	20,387,137	912,321	(432,341)	-	20,867,117
Library Books	10	7,599,242	125,037	(448,661)	-	7,275,618
Total Capital Assets being Depreciated		182,727,261	5,773,007	(881,002)	2,303,558	189,922,824
Less: Accumulated Depreciation:						
Buildings, including Improvements		(36,178,596)	(5,212,949)	-	-	(41,391,545)
Improvements Other than Buildings		(6,212,311)	(624,234)	-	-	(6,836,545)
Furnishings and Equipment, including Capital Leases		(12,957,707)	(1,994,508)	420,088	-	(14,532,127)
Library Books		(6,934,106)	(110,429)	339,984	-	(6,704,551)
Total Accumulated Depreciation		(62,282,720)	(7,942,120)	760,072	-	(69,464,768)
Total Capital Assets being Depreciated, Net		120,444,541	(2,169,113)	(120,930)	2,303,558	120,458,056
Capital Assets, Net		\$ 123,148,223	\$ (1,355,972)	\$ (120,930)	\$ -	\$ 121,671,321

NOTE 6 LEASES

The University has entered into operating leases for certain office and classroom space on a year-to-year basis. Total rent expense for operating leases was \$135,170 and \$158,640 for the years ended June 30, 2014 and 2013, respectively. Future lease payments for operating leases are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2015	\$ 40,940
2016	20,000
Total	<u>\$ 60,940</u>

**SLIPPERY ROCK UNIVERSITY OF PENNSYLVANIA
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NOTE 7 ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consisted of the following at June 30:

	<u>2014</u>	<u>2013</u>
Employees	\$ 7,960,217	\$ 7,674,743
Supplies and Services	1,871,186	1,905,009
Other	885,984	1,054,257
Interest	72,014	89,149
Total	<u>\$ 10,789,401</u>	<u>\$ 10,723,158</u>

NOTE 8 UNEARNED REVENUE

Unearned revenue consisted of the following at June 30:

	<u>2014</u>	<u>2013</u>
Grants	\$ 412,394	\$ 465,038
Students	4,332,326	4,005,781
Auxiliary	1,972,500	2,395,000
Other	43,271	75,105
Total	<u>\$ 6,760,491</u>	<u>\$ 6,940,924</u>

During the year ended June 30, 2011, the University entered into a contract with their food service provider. This contract required the food service provider to make an investment in the University at the inception of the contract to be recognized over a 10-year period. The remaining unamortized amount as of June 30, 2014 and 2013 was \$1,972,500 and \$2,395,000, respectively, and is presented as unearned auxiliary revenue.

**SLIPPERY ROCK UNIVERSITY OF PENNSYLVANIA
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NOTE 9 BONDS PAYABLE

Bonds payable consist of tax-exempt revenue bonds issued by the State System through the Pennsylvania Higher Education Facilities Authority (PHEFA). In connection with the bond issuances, the State System entered into a loan agreement with PHEFA on behalf of the University under which the State System has pledged its full faith and credit for the repayment of the bonds. The loan constitutes an unsecured general obligation of the State System. The State System's Board of Governor's has allocated portions of certain bond issuances to the University to undertake various capital projects or to advance refund certain previously issued bonds. The University is responsible for the repayment of principal and interest on its applicable portion of each obligation. The various bond series allocated to the University for the years ended June 30, 2014 and 2013 are as follows:

	2014				
	Weighted Average Interest Rate	Balance July 1, 2013	Bonds Issued	Bonds Redeemed	Balance June 30, 2014
	Series AC issued in July 2006	4.89 %	\$ 1,319,746	\$ -	\$ (82,942)
Series AG issued in July 2007	4.75 %	2,413,646		(564,896)	1,848,750
Series AH issues in July 2008	4.70 %	8,441,737		(492,306)	7,949,431
Series AI issued in August 2008	4.10 %	331,875		(22,243)	309,632
Series AJ issued in July 2009	4.89 %	9,836,545		(430,179)	9,406,366
Series AL issued in July 2010	5.00 %	14,936,798		(1,081,263)	13,855,535
Series AM issued in July 2011	4.68 %	10,606,948		(6,238,819)	4,368,129
Total Bonds Payable		\$ 47,887,295	\$ -	\$ (8,912,648)	\$ 38,974,647

	2013				
	Weighted Average Interest Rate	Balance July 1, 2012	Bonds Issued	Bonds Redeemed	Balance June 30, 2013
	Series AC issued in July 2006	4.89 %	\$ 1,398,793	\$ -	\$ (79,047)
Series AG issued in July 2007	4.75 %	2,957,144	-	(543,498)	2,413,646
Series AH issues in July 2008	4.70 %	8,910,271	-	(468,534)	8,441,737
Series AI issued in August 2008	4.10 %	353,412	-	(21,537)	331,875
Series AJ issued in July 2009	4.89 %	10,246,399	-	(409,854)	9,836,545
Series AL issued in July 2010	5.00 %	15,966,211	-	(1,029,413)	14,936,798
Series AM issued in July 2011	4.68 %	10,979,252	-	(372,304)	10,606,948
Total Bonds Payable		\$ 50,811,482	\$ -	\$ (2,924,187)	\$ 47,887,295

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NOTE 9 BONDS PAYABLE (CONTINUED)

The State System's outstanding bonds are assigned an Aa3 rating from Moody's Investors Service, Inc. In April 2014, Moody's revised the State System's outlook from *stable* to *negative*. The State System's outstanding bonds are assigned an AA rating from Fitch Ratings. In April 2014, Fitch also revised the State System's outlook from *stable* to *negative*.

The University participates in the State System's Academic Facilities Renovation Bond Program (AFRP), which was established for the purpose of renovating the academic facilities across the State System. This program will provide \$100,000,000 in funding over the next several years. The State System will issue bonds to provide a pool for funding for AFRP (\$33,625,385 and \$37,540,089 was outstanding as of June 30, 2014 and 2013, respectively). Universities can request funds for AFRP projects in accordance with their pre-approved amount of funding from the pool. Repayments to the pool are made annually based on the University's proportionate share of the total allocation of funds under the program. As of June 30, 2014 and 2013, the balance owed by the University to the State System's AFRP pool of funding was \$2,777,890 and \$3,085,603, respectively.

Principal and interest maturities for each of the next five years and in subsequent five-year periods ending June 30 are as follows:

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NOTE 9 BONDS PAYABLE (CONTINUED)

Series		2015	2016	2017	2018	2019	2020-2024	2025-2029	Thereafter	Total
AC	Principal	\$ 87,067	\$ 91,420	\$ 96,002	\$ 100,814	\$ 105,855	\$ 614,506	\$ 141,140	\$ -	\$ 1,236,804
	Interest	60,113	55,760	51,189	46,389	41,348	121,827	6,175	-	382,801
	Total	<u>147,180</u>	<u>147,180</u>	<u>147,191</u>	<u>147,203</u>	<u>147,203</u>	<u>736,333</u>	<u>147,315</u>	<u>-</u>	<u>1,619,605</u>
AG	Principal	584,154	616,250	648,346	-	-	-	-	-	1,848,750
	Interest	92,438	63,230	32,417	-	-	-	-	-	188,085
	Total	<u>676,592</u>	<u>679,480</u>	<u>680,763</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,036,835</u>
AH	Principal	516,078	542,634	569,801	598,361	628,313	3,217,502	1,876,742	-	7,949,431
	Interest	370,609	344,805	317,673	289,183	259,265	857,356	227,704	-	2,666,595
	Total	<u>886,687</u>	<u>887,439</u>	<u>887,474</u>	<u>887,544</u>	<u>887,578</u>	<u>4,074,858</u>	<u>2,104,446</u>	<u>-</u>	<u>10,616,026</u>
AI	Principal	22,949	23,655	24,714	25,773	26,832	151,462	34,247	-	309,632
	Interest	13,002	12,142	11,195	10,207	9,176	28,189	1,541	-	85,452
	Total	<u>35,951</u>	<u>35,797</u>	<u>35,909</u>	<u>35,980</u>	<u>36,008</u>	<u>179,651</u>	<u>35,788</u>	<u>-</u>	<u>395,084</u>
AJ	Principal	451,894	474,664	497,433	522,647	548,916	3,184,252	3,726,560	-	9,406,366
	Interest	453,839	431,244	407,511	382,639	356,507	1,342,346	531,143	-	3,905,229
	Total	<u>905,733</u>	<u>905,908</u>	<u>904,944</u>	<u>905,286</u>	<u>905,423</u>	<u>4,526,598</u>	<u>4,257,703</u>	<u>-</u>	<u>13,311,595</u>
AL	Principal	1,135,008	1,191,557	1,251,156	580,493	609,938	3,534,839	4,510,741	1,041,803	13,855,535
	Interest	692,777	636,026	576,448	513,891	484,866	1,935,678	959,416	52,090	5,851,192
	Total	<u>1,827,785</u>	<u>1,827,583</u>	<u>1,827,604</u>	<u>1,094,384</u>	<u>1,094,804</u>	<u>5,470,517</u>	<u>5,470,157</u>	<u>1,093,893</u>	<u>19,706,727</u>
AM	Principal	172,151	180,617	189,789	199,314	207,427	1,203,291	1,512,315	703,225	4,368,129
	Interest	204,470	195,863	186,832	177,343	169,370	679,961	371,112	49,610	2,034,561
	Total	<u>376,621</u>	<u>376,480</u>	<u>376,621</u>	<u>376,657</u>	<u>376,797</u>	<u>1,883,252</u>	<u>1,883,427</u>	<u>752,835</u>	<u>6,402,690</u>
Total	Principal	2,969,301	3,120,797	3,277,241	2,027,402	2,127,281	11,905,852	11,801,745	1,745,028	38,974,647
	Interest	1,887,248	1,739,070	1,583,265	1,419,652	1,320,532	4,965,357	2,097,091	101,700	15,113,915
	Total	<u>\$ 4,856,549</u>	<u>\$ 4,859,867</u>	<u>\$ 4,860,506</u>	<u>\$ 3,447,054</u>	<u>\$ 3,447,813</u>	<u>\$ 16,871,209</u>	<u>\$ 13,898,836</u>	<u>\$ 1,846,728</u>	<u>\$ 54,088,562</u>

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NOTE 10 OBLIGATION UNDER CAPITAL LEASES

The University has incurred obligations under the terms of capital lease arrangements in 2010. The obligations are collateralized by the related leased equipment.

The present value of future net minimum lease payments has been classified in the accompanying financial statements at June 30, 2014 and 2013 as follows:

	<u>2014</u>	<u>2013</u>
Current Maturities of Capital Lease Obligations	\$ 21,034	\$ 35,042
Long-term Maturities of Capital Lease Obligations	9,830	33,179
Total	<u>\$ 30,864</u>	<u>\$ 68,221</u>

The following is a schedule, by year, of minimum, lease payments under the capital leases, together with the present value of the net minimum lease payments as of June 30, 2014:

<u>Year Ending June 30,</u>	<u>Amount</u>
2015	\$ 21,962
2016	<u>10,071</u>
Total Minimum Lease Payments	32,033
Amounts Representing Interest	<u>(1,169)</u>
Present Value of Net Minimum Lease Payments	<u>\$ 30,864</u>

NOTE 11 COMPENSATED ABSENCES AND POSTRETIREMENT BENEFITS

Compensated absences and postretirement benefits for the years ended June 30, 2014 and 2013 are as follows:

	<u>2014</u>		<u>2013</u>	
	<u>Current</u>	<u>Noncurrent</u>	<u>Current</u>	<u>Noncurrent</u>
Compensated Absences	\$ 514,405	\$ 8,176,799	\$ 419,001	\$ 8,151,818
Post-Retirement				
Benefit Obligations	4,452,000	73,451,388	4,216,000	67,699,550
Total	<u>\$ 4,966,405</u>	<u>\$ 81,628,187</u>	<u>\$ 4,635,001</u>	<u>\$ 75,851,368</u>

Changes in the compensated absence liability were as follows:

	<u>2014</u>	<u>2013</u>
Balance at July 1	\$ 8,570,819	\$ 8,181,490
Current Change in Estimate	672,500	1,030,436
Payouts	(552,115)	(641,107)
Balance at June 30	<u>\$ 8,691,204</u>	<u>\$ 8,570,819</u>

**SLIPPERY ROCK UNIVERSITY OF PENNSYLVANIA
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NOTE 11 COMPENSATED ABSENCES AND POSTRETIREMENT BENEFITS (CONTINUED)

University employees who retire after meeting specified service and age requirements become eligible for participation in one of two defined healthcare benefits plans. These plans include hospital, medical/surgical, and major medical coverage, and provide a Medicare supplement for individuals over age 65.

System Plan

Plan Description

Employee members of the Association of Pennsylvania State College and University Faculties (APSCUF), the State College and University Professional Association (SCUPA), Security Police and Fire Professionals of America (SPFPA), Pennsylvania Nurses Association (PNA), and nonrepresented employees participate in a single-employer defined benefit healthcare plan administered by the State System (the "System Plan"). The System Plan provides eligible retirees and their eligible dependents with healthcare benefits as well as tuition waivers at any of the State System's universities. Act 188 empowers the Board to establish and amend benefit provisions. Since the System Plan is unfunded and has no assets, no financial report is prepared.

Funding Policy

The contribution requirements of plan members and the State System are established and may be amended by the Board. The System Plan is funded on a pay-as-you-go basis; i.e., premiums are paid to an insurance company and various health maintenance organizations to fund the healthcare benefits to current retirees. Tuition waivers are provided by the retiree's sponsoring University as they are granted. The State System paid premiums of \$44,201,000 and \$42,975,000 for the fiscal years ended June 30, 2014 and 2013, respectively. Plan members receiving benefits contribute at various rates, depending upon when they retire, whether they are eligible for Medicare, the contribution rate in effect on the day of their retirement, the contribution rate for active employees, and applicable collective bargaining agreements. Following are the contribution rates of plan members as of June 30, 2014:

- Plan members receiving benefits who retired prior to July 1, 2005, are not required to make contributions.
- Nonfaculty coaches who retired July 1, 2005, pay a percentage of their final annual gross salary at the time of retirement.
- Other eligible annuitants who retired on or after July 1, 2005, and prior to July 1, 2008, and who are under age 65 pay 10% of the plan premium in effect on the day of retirement. When annuitants become eligible for Medicare, they pay 15% of the current cost of their Medicare coverage and current cost of coverage for covered dependents. The rate changes annually, and future adjustments will apply if contributions increase for active employees.

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NOTE 11 COMPENSATED ABSENCES AND POSTRETIREMENT BENEFITS (CONTINUED)

System Plan (Continued)

Funding Policy (Continued)

- Other eligible annuitants who retire after July 1, 2008, pay 15% of the plan premium in effect on their retirement date. Future adjustments will apply if contributions increase for active employees.

Total contributions made by plan members were \$3,969,000 and \$3,607,000 or approximately 8.2% and 7.7% of the total premiums for the fiscal years ended June 30, 2014 and 2013, respectively.

Annual OPEB Cost and Net OPEB Obligation

The University's annual other post employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45 , *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*. The ARC represents a level of funding that, if paid annually, is projected to cover normal cost plus the annual portion of the unfunded actuarial liability amortized over thirty years. The following shows the components of the University's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in net OPEB obligation:

Annual Required Contribution	\$ 9,599,000
Interest on Net OPEB Obligation	2,851,000
Adjustment to Annual Required Contribution	<u>(3,597,000)</u>
Annual OPEB Cost	8,853,000
Contributions Made	<u>(2,865,162)</u>
Increase in Net OPEB Obligation	5,987,838
Net OPEB Obligation at July 1, 2013	<u>71,915,550</u>
Net OPEB Obligation at June 30, 2014	<u><u>\$ 77,903,388</u></u>

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NOTE 11 COMPENSATED ABSENCES AND POSTRETIREMENT BENEFITS (CONTINUED)

Annual OPEB Cost and Net OPEB Obligation (Continued)

The University's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for June 30, 2014, and the two preceding years were as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
June 30, 2014	\$ 8,853,000	32.4 %	\$ 77,903,388
June 30, 2013	8,463,000	33.7 %	71,915,550
June 30, 2012	8,616,000	33.4 %	66,301,530

Funded Status and Funding Progress

The funded status of the plan as of July 1, 2013, the most recent actuarial valuation date was as follows:

Actuarial Accrued Liability (AAL)	\$ 110,631,000
Actuarial Value of Plan Assets	-
Unfunded Actuarial Accrued Liability (UAAL)	<u>\$ 110,631,000</u>
Funded Ratio (Actuarial Value of Plan Assets/AAL)	<u>- %</u>
Covered Payroll (Active Plan Members)	<u>\$ 44,138,590</u>
UAAL as a Percentage of Covered Payroll	<u>250.6 %</u>

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NOTE 11 COMPENSATED ABSENCES AND POSTRETIREMENT BENEFITS (CONTINUED)

Funded Status and Funding Progress (Continued)

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2013 actuarial valuation, the projected unit credit method was used. The actuarial assumptions included a 4.25% investment rate of return, which is the expected rate to be earned on the State System's operating portfolio, and annual healthcare cost trend rate of 7.8% for pre-Medicare and 6.8% for post-Medicare, initially, reduced by decrements to an ultimate rate of 5.0% by 2025. The UAAL is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period at July 1, 2013, was 22 years.

Retired Employees Health Program

Plan Description

Employee members of the American Federation of State, County and Municipal Employees (AFSCME); Pennsylvania Doctors Alliance (PDA); and Pennsylvania Social Services Union (PSSU) participate in the Retired Employees Health Program (REHP), which is sponsored by the Commonwealth and administered by the Pennsylvania Employee Benefits Trust Fund (PEBTF). The REHP provides eligible retirees and their eligible dependents with health care benefits. Benefit provisions are established and may be amended under pertinent statutory authority. The REHP neither issues a stand-alone financial report nor is it included in the report of a public employee retirement system or other entity.

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NOTE 11 COMPENSATED ABSENCES AND POSTRETIREMENT BENEFITS (CONTINUED)

Funding Policy

The contribution requirements of plan members covered under collective bargaining agreements are established by the collective bargaining agreements. The contribution requirements of nonrepresented plan members and contributing entities are established and may be amended by the Commonwealth's Office of Administration and the Governor's Budget Office. Plan members who enrolled prior to July 1, 2005, are not required to make contributions. Plan members who enrolled after July 1, 2005, contribute a percentage of their final salary, the rate of which varies based on the plan member's enrollment date. Agency member (employer) contributions are established primarily on a pay-as-you-go basis. In fiscal year 2013/14, the State System contributed \$305 for each current active employee per biweekly pay period. The State System made contributions of \$28,584,000, \$25,638,000, and \$23,228,000 for the fiscal years ended June 30, 2014, 2013, and 2012, respectively, which equaled the required contributions for the year. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

NOTE 12 PENSION BENEFITS

The Public School Employees' Retirement System (PSERS) and the Commonwealth of Pennsylvania State Employees' Retirement System (SERS) are governmental cost-sharing multiple-employer defined benefit plans. The Alternative Retirement Plan (ARP) is a defined contribution plan administered by the State System.

PSERS provides retirement and disability benefits, legislative-mandated ad hoc cost-of-living adjustments, and healthcare insurance premium assistance to qualifying annuitants. The Public School Employees' Retirement Code (Act No. 96 of October 2, 1975, as amended) (24 Pa. C.S. Section 8101-9102) is the authority by which benefit provisions are established and may be amended. The contribution policy for PSERS is established in the Public School Employees' Retirement Code and requires contributions by active members, the employer (University), and the Commonwealth of Pennsylvania. Contribution rates for most active members are between 5.25% and 7.50% of their qualifying compensation, depending upon when the active member was hired and what benefits class was selected. New members hired after July 1, 2011, have a one-time election to choose a 10.3% contribution rate. The contribution rate for the University is an actuarially determined rate. The rate was 8.465% of annual covered payroll at June 30, 2014. The University's contributions to PSERS for the years ended June 30, 2014, 2013 and 2012 were \$342,243, \$268,993 and \$173,374, respectively, equal to the required contractual contribution. PSERS issues a comprehensive annual financial report that includes financial statements and required supplementary information for the plan. A copy of the report may be obtained from the Publications page of the PSERS website, www.psers.state.pa.us, or by writing to Public School Employees' Retirement System, 5 North Fifth Street, Harrisburg, Pennsylvania 17101-1905.

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NOTE 12 PENSION BENEFITS (CONTINUED)

SERS provides retirement, death, and disability benefits, and legislative-mandated ad hoc cost-of-living adjustments. Article II of the Commonwealth of Pennsylvania's Constitution assigns the authority to establish and amend the benefit provisions of the plan to the General Assembly. The contribution policy for SERS, as established by the State Employees' Retirement Code, requires contributions by active members and the employer (University). The contribution rate for both active members and the University depends upon when the active member was hired and what benefits class is selected. Contribution rates for most active members are between 5.0% and 6.25% of their qualifying compensation. New members hired after January 1, 2011, have a one-time election to choose a 9.3% contribution rate. The University contributed at actuarially determined rates of between 10.46% and 15.12% of an active member's annual covered payroll at June 30, 2014. The University's contribution to SERS for the years ended June 30, 2014, 2013 and 2012 were \$3,075,080, \$2,140,902 and \$1,447,636, respectively, equal to the required contractual contribution. SERS issues a publicly available annual financial report that includes financial statements and required supplementary information for the plan. A copy of the report may be obtained from the SERS website, www.sers.state.pa.us, or by writing to Commonwealth of Pennsylvania, State Employees' Retirement System, 30 North Third Street, Suite 150, Harrisburg, Pennsylvania 17101.

Because the ARP is a defined contribution plan, benefits equal amounts contributed to the plan plus investment earnings. Act 188 empowers the Board of Governors to establish and amend benefit provisions. The State Employees' Retirement Code establishes the employer contribution for the ARP, while the Board establishes the employee contribution rates. Active members contribute at a rate of 5% of their qualifying compensation. The University's contribution rate on June 30, 2014 and 2013 was 9.29% of qualifying compensation. The contributions to the ARP for the years ended June 30, 2014 and 2013 were \$3,320,060 and \$3,236,640, respectively, from the University and \$1,772,363 and \$1,733,248, respectively, from active members.

NOTE 13 WORKERS' COMPENSATION

The University participates in the State System's self-insured workers' compensation plan. For claims occurring prior to July 1, 1995, the University is responsible for claims less than \$100,000; for claims occurring on or after July 1, 1995, the University is responsible for claims less than \$200,000. Claims in excess of the self-insurance limits are funded through the Workers' Compensation Collective Reserve Fund (Reserve Fund), to which the University contributes in the amount determined by an independent actuarial study. Based on updated actuarial studies, the University contributed \$145,483 and \$124,308 to the Reserve Fund for the years ended June 30, 2014 and 2013, respectively.

**SLIPPERY ROCK UNIVERSITY OF PENNSYLVANIA
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NOTE 13 WORKERS' COMPENSATION (CONTINUED)

The liability for claims under the self-insurance limit for the years ended June 30, 2014 and 2013 were \$811,385 and \$437,783, respectively. Changes in the University's claims liability amount for fiscal years 2014 and 2013 were:

<u>Year</u>	<u>Beginning of Fiscal Year Liability</u>	<u>Current Year Claims and Changes in Estimates</u>	<u>Claims Payments</u>	<u>Balance at Fiscal Year-End</u>
2014	\$ 473,783	\$ 641,871	\$ (304,269)	\$ 811,385
2013	\$ 494,720	\$ 456,555	\$ (477,492)	\$ 473,783

NOTE 14 RELATED PARTY TRANSACTIONS

Alumni Association

Slippery Rock University Alumni Association (the "Alumni Association") is a non-profit association formed to promote the welfare of the University by initiating and/or participating in fund raising drives aimed at providing scholarship assistance, research fellowships and grants, and additional facilities to meet special cultural, research or athletic needs. Since the Alumni Association operates under an independent governing board and management, the financial activity of the Alumni Association is not included in the University's financial statements.

Based upon internal financial statements, the Alumni Association had net assets of \$2,254,418 at June 30, 2014 and \$1,297,456 at June 30, 2013.

Slippery Rock University Foundation (the "Foundation")

The Foundation, which is a component unit of the University, was organized for the purpose of raising private support, and managing funds which are used solely for the benefit and support of the University. The Foundation does this by raising private support to provide the University with resources not available through normal system funding, in accordance with restrictions, if any, imposed by donors. The primary source of income to the Foundation are contributions from both individual and corporate donors, investment income, and camp fees. The Foundation also has oversight and management of campus student housing complexes. Although the University does not control the timing or amount of receipts from the Foundation, the majority of the resources and income thereon is restricted for the activities of the University by donors. As of June 30, 2014 and 2013, the Foundation held \$15,077,869 and \$13,977,404 of permanently restricted net assets for the benefit of the University. Permanently restricted net assets are primarily comprised of scholarships.

**SLIPPERY ROCK UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 14 RELATED PARTY TRANSACTIONS (CONTINUED)

Slippery Rock University Foundation (the "Foundation") (Continued)

The Foundation annually agrees with the University to manage the investment of monies received from various sources under the fiduciary agreement. The amount due to the University under this agreement as of June 30, 2014 and 2013 was \$2,571,519 and \$3,811,201, respectively. During the 2014 and 2013 fiscal years, the Foundation provided the following support to the University:

	2014	2013
Scholarships	\$ 1,538,096	\$ 2,201,796
Support of University Programs	1,017,185	1,557,088

The Foundation entered into an agreement with the University to provide office space, management and accounting personnel, computer and office equipment, and supplies at no cost. The total in-kind services provided to the Foundation by the University amounted to \$231,797 and \$239,798 in 2014 and 2013, respectively.

For the years ended June 30, 2014 and 2013, the University paid the Foundation \$959,500 for the cost of employee's salaries, benefits, and other expenses related to comprehensive fundraising services.

Slippery Rock Student Government Association (the "Association")

The Association, which is a component unit of the University, was organized to provide student services and to promote and support educational cultural and recreational activities for the students of the University. The Association primarily conducts student activity fee supported organizations, bookstore operations, vending machine operations, child day care and Pre-K Counts operations. During the years ended June 30, 2014 and 2013, the Association received \$2,222,518 and \$2,215,074, respectively, in student activity fees from the University.

NOTE 15 CONTINGENCIES

Authorized expenditures for services, supplies, equipment, and construction projects unexpended as of June 30, 2014 and 2013 were \$1,677,828 and \$2,824,128, respectively.

The nature of the education industry is such that, from time to time, the University is exposed to various risks of loss related to torts; alleged negligence; acts of discrimination; breach of contract; labor disputes; disagreements arising from the interpretation of laws or regulations; theft of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters. While some of these claims may be for substantial amounts, they are not unusual in the ordinary course of providing educational services in a higher education system.

**SLIPPERY ROCK UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 15 CONTINGENCIES (CONTINUED)

The University is self-insured for workers' compensation up to stated limits (see Note 13). For all other risks of loss, the University pays annual premiums to the Commonwealth to participate in its Risk Management Program. The University does not participate in any public entity risk pools, and does not retain risk related to any aforementioned exposure, except for those amounts incurred relative to policy deductibles that are not significant. The University has not significantly reduced any of its insurance coverage from the prior year. It is not expected that the resolution of any outstanding claims and litigation will have a material adverse effect on the accompanying financial statements.

NOTE 16 TERMINATION BENEFITS

In March 2013, the State System's Board of Governors approved a Voluntary Retirement Incentive Program for APSCUF employees meeting certain age and service requirements. Eligible faculty who indicated their intent to retire by May 31, 2013, and eligible coaches who indicated their intent to retire by June 28, 2013, qualified for a cash incentive payout between \$10,000 and \$30,000, depending on base salary and years of service. A total of 2 eligible University employees accepted the offer by signing a release and settlement agreement releasing the State System and the University from all legal claims related to their employment and retirement. For the year ended June 30, 2013, the University recorded an expense of \$53,000 for the cash incentive and \$4,000 for associated Social Security and Medicare taxes, for a total expense of \$57,000. The cash incentive is not eligible for retirement benefits.

**SLIPPERY ROCK UNIVERSITY OF PENNSYLVANIA
OF THE STATE SYSTEM OF HIGHER EDUCATION
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULES OF FUNDING PROGRESS FOR THE SYSTEM PLAN AND REHP (OPEB)
JUNE 30, 2014 AND 2013
(UNAUDITED)**

**Schedule of Funding Progress for the System Plan (OPEB)
(in Thousands)**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
July 1, 2011	\$ -	\$ 105,536	\$ 105,536	- %	\$ 43,311	243.7 %
July 1, 2012	-	106,643	106,643	- %	42,853	248.9 %
July 1, 2013	-	110,631	110,631	- %	44,139	250.6 %

**Schedule of Funding Progress for the REHP (OPEB)
(in Thousands)**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
July 1, 2011	\$ 70,740	\$ 12,907,790	\$ 12,837,050	0.55 %	\$ 3,858,000	334 %
July 1, 2012	71,630	12,843,700	12,772,070	0.56 %	4,130,000	309 %
July 1, 2013	80,060	13,234,040	13,151,980	0.62 %	4,264,000	308 %

The information above related to the Commonwealth's REHP as a whole; i.e., it is inclusive of all participating Commonwealth agencies and instrumentalities. Nearly all Commonwealth agencies and instrumentalities participate in the REHP.